



**Testimony of Kyle Caldwell, President and CEO, Michigan Nonprofit Association  
Michigan House Committee on Tax Policy  
Tuesday, April 26, 2011**

On behalf of Michigan Nonprofit Association and our nearly 1,000 members, thank you for the opportunity to testify on the importance of charitable tax credits to the continued success of the nonprofit sector. The nonprofit sector is a large economic driver – the fourth largest sector in the state – and provides vital services to Michigan residents in efficient, innovative and effective ways.

The Michigan nonprofit sector opposes the proposed elimination of the Michigan charitable tax credits. The full elimination of these credits will unravel decades of hard work by lawmakers and philanthropists to encourage individual giving to nonprofits in an era when public funding becomes more constrained and less stable. These credits support Michigan nonprofits that serve those most in need – the hungry and homeless – as well as increase our opportunity to continue to grow endowments that contribute to our financial diversity and sustainability. Instead of total elimination of the credits, we encourage you and other lawmakers to support the continuation of Michigan's charitable tax credits.

The rapid increase in demand for nonprofit services far exceeds the resources we have to meet critical needs brought on by persistently high unemployment, record levels of foreclosures and tight money markets. Individual giving is especially challenging to maintain in a climate of decreased discretionary income levels. While more than 83 percent of Michigan residents made a contribution to a charity in 2010, that number is down from nearly 90 percent in 2007.<sup>1</sup>

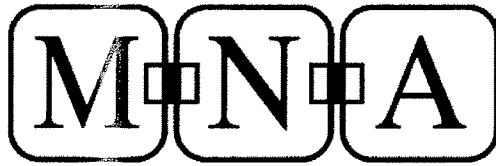
If charitable tax credits are eliminated, it will stifle one of the few remaining long-term revenue sources to the nonprofit sector. The ability of donors to deduct contributions to a charity from their taxes is a cornerstone of America's and Michigan's strong charitable traditions.<sup>2</sup> With government paying less than 75 cents on the dollar for contracted services, individual and institutional philanthropy is needed to fill in the gap.<sup>3</sup> The current persistent and deep economic recession is already causing reductions in private giving to nonprofits. Challenges to charitable incentives weaken the ability of nonprofits to be strong partners with government.

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<sup>1</sup>Snapshot on Giving & Volunteering in Michigan 2010, Michigan State University State of the State Survey.  
[www.mnaonline.org/research.aspx](http://www.mnaonline.org/research.aspx)

<sup>2</sup>Nonprofit Finances, Demand for Services, and Volunteer Engagement. Michigan Nonprofit Association, Johnson Center, GVSU.  
[www.mnaonline.org/research.aspx](http://www.mnaonline.org/research.aspx)

<sup>3</sup>Failure to Pay Full Costs Report, National Council of Nonprofit Organizations.  
[www.govtcontracting.org/problems/failure-pay-full-costs](http://www.govtcontracting.org/problems/failure-pay-full-costs)



## Michigan Nonprofit Association

Charitable giving incentives help middle income earners contribute to Michigan's nonprofit organizations in these financially challenging times. Tax incentives, including charitable tax credits, influence how much individuals give. With the pressure on our nonprofit sector to do more with less, we need to continue to support individual giving with tools such as charitable tax credits to ensure the sustainability of the sector.

The state's potentially small gain in revenue (less than \$50 million/year) with the elimination of these credits will be dwarfed by the negative impact of starving nonprofits of the leverage they need to multiply and diversify their donations through individual giving tax credits. While ideally we would like to retain the current charitable tax credits, we understand the importance of shared sacrifice in these tough economic times. In an effort to reduce some of the financial impact on the state while maintaining the leverage of the credits, we recommend combining the three charitable credits (the public contributions, community foundations, and the homeless shelter/food banks credits) into one simplified credit and reducing the credits from 50 percent to 25 percent.

This solution addresses two of the Governor's budget goals – simplification and savings. The simplified credit is projected to save the state \$14 million – a 25% reduction in the current cost of these charitable credits. The simplified credit will still generate more than \$100 million in private giving toward the organizations helping government meet local needs – a remarkable return on investment for our state.<sup>4</sup>

MNA recommends that charitable tax credits be maintained to ensure that nonprofits can provide vitally needed services and that any modifications to the tax credits focus on reduction and simplification rather than elimination. We will be forwarding a letter from the nonprofit community this week, calling for the simplification of the credit rather than elimination. We urge you to support the continuation and simplification of Michigan's charitable tax credits.

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<sup>4</sup> Option for Simplification and Reduction of the Current Individual Michigan Tax Credits for Charitable Donations, Public Sector Consultants. [www.mnaonline.org/budgetresources.aspx](http://www.mnaonline.org/budgetresources.aspx)

April 15, 2011

## Americans Oppose Eliminating Income Tax Deductions

Opposition high even when framed as part of plans to lower tax rates or reduce deficit

by Jeffrey M. Jones

PRINCETON, NJ -- Americans make it clear they want to keep common federal income tax deductions, regardless of whether the proposed elimination of those deductions is framed as part of a plan to lower the overall income tax rate or as a way to reduce the federal budget deficit. No more than one in three Americans favor eliminating any of the deductions in either scenario.

*Would you favor or oppose eliminating each of the following tax deductions as part of a plan to [lower the overall federal income tax rate/reduce the federal budget deficit]?*

	% Favor	% Oppose
"... To lower the overall income tax rate"		
Home mortgage interest	31	61
State and local taxes	30	62
Contributions to charities	26	71
"... To reduce the federal budget deficit"		
State and local taxes	33	58
Home mortgage interest	33	60
Contributions to charities	29	68

Note: Each version asked of a separate half sample  
USA Today/Gallup, April 13, 2011

### GALLUP

The results are based on a *USA Today*/Gallup poll conducted April 13. Half of respondents were asked about eliminating the deductions as part of a plan to lower the overall tax rate and the other half were asked about eliminating the same deductions to reduce the federal budget deficit. The questions evoke similar levels of opposition to eliminating the deductions.

Budget plans that call for lower overall tax rates, such as the one proposed by Rep. Paul Ryan, would essentially require that popular deductions be eliminated, basically trading off one tax break for another. President Obama's commission on deficit reduction last December called for eliminating deductions, including the one for mortgage interest, as part of its plan (ultimately rejected) to reduce the federal budget deficit.

***Favor/Oppose Eliminating Tax Deductions, by Whether Respondent Claims That Deduction***

	<b>% Favor</b>	<b>% Oppose</b>
<b>Mortgage interest</b>		
Claim this deduction	21	77
Do not claim this deduction	39	49
<b>Charitable contributions</b>		
Claim this deduction	21	78
Do not claim this deduction	35	62
<b>State and local taxes</b>		
Claim this deduction	30	67
Do not claim this deduction	38	52

Note: Based on full sample; data from different forms combined, given similar results between each

USA Today/Gallup, April 13, 2011

GALLUP

Politically, Republicans are more likely to oppose eliminating the mortgage interest deduction than are Democrats or independents. Party differences are narrower in terms of the deductions for charitable gifts and state and local taxes paid.

For results based on the sample of 491 national adults in Form C and 513 national adults in Form D, one can say with 95% confidence that the maximum margin of sampling error is  $\pm 5$  percentage points.

Interviews are conducted with respondents on landline telephones and cellular phones, with interviews conducted in Spanish for respondents who are primarily Spanish-speaking. Each sample includes a minimum quota of 400 cell phone respondents and 600 landline respondents per 1,000 national adults, with additional minimum quotas among landline respondents for gender within region. Landline telephone numbers are chosen at random among listed telephone numbers. Cell phone numbers are selected using random digit dial methods. Landline respondents are chosen at random within each household on the basis of which member had the most recent birthday.

Samples are weighted by gender, age, race, Hispanic ethnicity, education, region, adults in the household, and phone status (cell phone-only/landline only/both, cell phone mostly, and having an unlisted landline number). Demographic weighting targets are based on the March 2010 Current Population Survey figures for the aged 18 and older non-institutionalized population living in U.S. telephone households. All reported margins of sampling error include the computed design effects for weighting and sample design.

In addition to sampling error, question wording and practical difficulties in conducting surveys can introduce error or bias into the findings of public opinion polls.

Polls conducted entirely in one day, such as this one, are subject to additional error or bias not found in polls conducted over several days.

[View methodology, full question results, and trend data](#)

For more details on Gallup's polling methodology, visit [www.gallup.com](http://www.gallup.com).

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# Single Page Summary: Council of Michigan Foundations Proposal to Alter Charitable Tax Credits

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1. Consolidate the 3 existing tax credits into a single tax credit. This provides simplification to the State income tax return and also simplifies the filing of the tax return for individuals and the record keeping required.
2. Reduce the amount of charitable donations made that are eligible for the new State tax credit from 50% of donations to 25% of donations.
3. Reduce the maximum annual amount to be claimed for the credit from \$200 per year on joint tax returns to \$100 per year. Reduce the maximum amount to be claimed for the credit from \$100 per year on a single tax return to \$50 per year.
4. Public Sector Consultants estimates that this would reduce the annual cost to the state of the existing income tax credits from \$49.2 million to \$17.2 million, or a savings of 65 percent.
5. The proposed change still provides an incentive for charitable givers to reduce their State income tax burden in exchange for certain charitable donations.
6. Encouraging private charitable giving through the tax credit reduces pressure on the State of Michigan funding for such programs as higher education, homeless shelters and food banks—and is often used as leverage by these same institutions to attract additional private gifts from foundations.